

VZCZCXRO4460
PP RUEHFK RUEHKSO RUEHNAG RUEHNH
DE RUEHKO #0473/01 0530815
ZNR UUUUU ZZH
P 220815Z FEB 08
FM AMEMBASSY TOKYO
TO RUEHC/SECSTATE WASHDC PRIORITY 1927
INFO RUEKJCS/SECDEF WASHDC PRIORITY
RHEHAAA/THE WHITE HOUSE WASHINGTON DC PRIORITY
RUEAWJA/USDOJ WASHDC PRIORITY
RULSDMK/USDOT WASHDC PRIORITY
RUCPDOG/USDOC WASHDC PRIORITY
RUEAIIA/CIA WASHDC PRIORITY
RUEKJCS/JOINT STAFF WASHDC//J5//
RHHMUNA/HQ USPACOM HONOLULU HI
RHHMHBA/COMPACFLT PEARL HARBOR HI
RHMFIUU/HQ PACAF HICKAM AFB HI//CC/PA//
RHMFIUU/USFJ //J5/JO21//
RUYNAAAC/COMNAVFORJAPAN YOKOSUKA JA
RUAYJAA/CTF 72
RUEHNH/AMCONSUL NAHA 8629
RUEHFK/AMCONSUL FUKUOKA 6235
RUEHOK/AMCONSUL OSAKA KOBE 9902
RUEHNAG/AMCONSUL NAGOYA 4803
RUEHKSO/AMCONSUL SAPPORO 6840
RUEHBJ/AMEMBASSY BEIJING 1801
RUEHUL/AMEMBASSY SEOUL 7869
RUCNDT/USMISSION USUN NEW YORK 8464

UNCLAS SECTION 01 OF 13 TOKYO 000473

SIPDIS

SIPDIS

DEPT FOR E, P, EB, EAP/J, EAP/P, EAP/PD, PA;
WHITE HOUSE/NSC/NEC; JUSTICE FOR STU CHEMTOB IN ANTI-TRUST DIVISION;
TREASURY/OASIA/IMI/JAPAN; DEPT PASS USTR/PUBLIC AFFAIRS OFFICE;
SECDEF FOR JCS-J-5/JAPAN,
DASD/ISA/EAPR/JAPAN; DEPT PASS ELECTRONICALLY TO USDA
FAS/ITP FOR SCHROETER; PACOM HONOLULU FOR PUBLIC DIPLOMACY ADVISOR;
CINCPAC FLT/PA/ COMNAVFORJAPAN/PA.

E.O. 12958: N/A

TAGS: [OIIP](#) [KMDR](#) [KPAO](#) [PGOV](#) [PINR](#) [ECON](#) [ELAB](#) [JA](#)

SUBJECT: DAILY SUMMARY OF JAPANESE PRESS 02/22/08

INDEX:

- (1) No end to antiterror war in sight (Asahi)
- (2) Ishiba increasingly isolated (Sankei)
- (3) Editorial: Aegis-equipped destroyer Atago's collision with fishing boat: SDF should not try to evade responsibility (Asahi)
- (4) LDP criticizes government's draft basic plan on ocean policy as showing no posture of trying to protect national interests (Sankei)
- (5) Marine admits to rape allegations (Okinawa Times)
- (6) Debate on bills on FY2000 budget, revision special taxation law to reach crucial stage at end of February; Ruling coalition planning to pass them through Lower House on Feb. 29, opposition camp seeking cautious debate (Nikkei)
- (7) Government eyes introduction of emissions trading system, in anticipation of creation of emissions-rights market by U.S (Asahi).
- (8) Interview with Keio University Professor Heizo Takenaka: Local areas have become impoverished because structural reforms have been insufficient (Ekonomisuto)
- (9) Interview with Eisuke Sakakibara: Carry out not reform but revolution to avoid ruin of Japan (Ekonomisuto)

ARTICLES:

(1) No end to antiterror war in sight

ASAHI (Page 4) (Full)
February 22, 2008

Keiichi Kaneko, Northern Arabian Sea, Indian Ocean, and Akihiro Yamada

The Maritime Self-Defense Force has now resumed its refueling mission in the Indian Ocean. Meanwhile, an MSDF Aegis ship collided with a fishing boat in waters off Chiba Prefecture, leaving its two crewmen missing. This accident seriously damaged the Defense Ministry's credibility as well as the Self-Defense Forces'. The government gave first consideration to its "international commitment," for which the ruling coalition went so far as to take a second vote in the House of Representatives for the first time in 57 years and enacted a new special measures law with a majority of two thirds. The MSDF is now back in the Indian Ocean to resume its refueling mission after a hiatus of about four months. However, there are many challenges in store for its resumed refueling operation.

"A destroyer will now resume the operation (in the Indian Ocean) with a supply ship. However, I wonder if they can really take appropriate action if and when they come under attack from terrorists."

The ruling Liberal Democratic Party yesterday held a meeting of its defense-related divisions. In the meeting, Taku Yamasaki, a former secretary general of the ruling Liberal Democratic Party, pointed to

SIPDIS
the MSDF's insufficient watch that was brought to light with the

TOKYO 00000473 002 OF 013

Aegis collision. Yamasaki thereby voiced concern about the MSDF's refueling activities in the Indian Ocean for the war on terror.

The accident was reported to the defense minister one and a half hours after its occurrence. This shows that the Defense Ministry was slack in its crisis management. In addition, the Defense Ministry changed its explanation again and again about the factual circumstances before and after the collision. The Diet was confused in its earlier proceedings over a number of issues, such as former Administrative Vice Defense Minister Moriya's bribery case, a U.S. warship's alleged diversion of MSDF fuel to military operations in Iraq, and the MSDF's cover-up of an error in the actual amount of fuel supplied to a U.S. warship. This time around, an MSDF ship hit and sank a fishing boat, damaging public faith in the Defense Ministry and the SDF.

Concerning fuel diversion, Japan has exchanged official notes with countries whose vessels are to be provided with MSDF fuel, stipulating that their vessels will use MSDF fuel for "maritime interdiction operations" only. Japan has also sent a liaison officer to Bahrain, where the liaison officer will hear from these countries' officials about their vessels' operational plans before refueling them.

However, Japan has no power to ask these countries about the destination of MSDF fuel. "We have no choice but to leave it to their goodwill," a senior official of the Defense Ministry said. It is hard to say that the problem has been completely cleared.

The old Antiterrorism Special Measures Law required the government to ask for the Diet's approval of SDF activities planned for overseas missions. The government was required to recall the MSDF to Japan if the government's masterplan for SDF activities could not obtain parliamentary approval from both houses of the Diet.

However, the Diet still remains divided, with the ruling coalition holding a majority of the seats in the lower chamber and the opposition parties controlling the upper chamber. The government did not incorporate that stipulation in its bill for the newly enacted

special measures law. The Diet's role is now weaker than before, so there were objections from within the ruling and opposition parties.

The governing parties took a second vote in the House of Representatives to enact the new special measures law with a majority of two thirds. The opposition parties denounced the ruling parties for such an unprecedented move, maintaining that sending SDF troops overseas under a law rejected in the House of Councillors, which reflects the nation's most recent judgment, is a problem from the perspective of civilian control.

The government's worry is that the new special measures law is valid for one year only.

In October last year, Prime Minister Fukuda stated before the House of Representatives Special Committee on Counterterrorism: "If the new law is set at one year, it's possible to fulfill Japan's cooperation in the international community by continuing the MSDF's refueling activities."

However, the war on terror in the Indian Ocean is not expected to end in one year. A senior Defense Ministry official also said: "The

TOKYO 00000473 003 OF 013

maritime interdiction operation will inevitably be protracted. The one-year special measures law is not enough at all. We should consider a permanent legal framework for sealane defense."

The resumed mission could have no way out.

(2) Ishiba increasingly isolated

SANKEI (Page 2) (Abridged slightly)
February 22, 2008

In the wake of a Maritime Self-Defense Force Aegis destroyer's collision with a fishing boat, opposition parties yesterday demanded Defense Minister Shigeru Ishiba's resignation, dangling the option of submitting a censure motion to the House of Councillors, where they hold a majority. Although Prime Minister Yasuo Fukuda flatly rejected the demand, some in the ruling camp have begun turning their backs on Ishiba. The defense minister now finds himself in the hot seat.

Opposition camp demands resignation, ruling bloc reacts coldly

Democratic Party of Japan Deputy President Naoto Kan, Secretary General Yukio Hatoyama and Japanese Communist Party Chairman Kazuo Shii all agreed yesterday to demand Ishiba's resignation.

The Ministry of Defense (MOD) announced that an Aegis crewmember on lookout duty had spotted the ill-fated fishing boat 10 minutes earlier than it initially explained. Reporting to the Prime Minister's Office (Kantei) about the collision was also delayed. The three lawmakers decided that all those problems demand Ishiba's resignation.

Hatoyama in particular harshly criticized MOD, saying: "The ministry's nature to cover up matters has not changed." He also implied the possibility of submitting a censure motion against Ishiba, noting: "It is quite possible for us to use our numerical superiority in the Upper House."

The Diet affairs committee chairmen of four opposition parties also agreed that Ishiba should resign for the same reason. Additionally, they confirmed a policy course to continue pursuing Ishiba in Lower House Budget Committee sessions depending on his explanation before the Lower House Security Committee this morning. Deliberations at the Security Committee will be crucial for Ishiba.

Meanwhile, Prime Minister Fukuda, who is suffering from low approval ratings, wants to avoid Ishiba's resignation, which would damage the foundation of his administration.

The prime minister had this to say last night about the opposition

bloc's demand for Ishiba's resignation: "The current situation does not allow us to think about such a matter. Mr. Ishiba is playing a central role in reform of the Defense Ministry, so he needs to deal with the situation firmly."

A senior LDP lawmaker also said: "If a person doesn't make any mistakes in exercising his authority, he does not have to resign." Ishiba energetically took action yesterday, visiting the city of Katsuura in Chiba Prefecture in the afternoon to offer apologies to the family of the two missing fishermen.

TOKYO 00000473 004 OF 013

Prior to this, Ishiba attended a Lower House Security Committee meeting, in which he indicated his intention to make utmost efforts to integrate the internal bureaus (non-uniformed group) and the SDF staff offices (uniformed group) into an enhanced system, saying: "I believe implementing a sweeping reform plan is the way to restore public trust in the Defense Ministry."

An Ishiba aide commented: "The defense minister thinks that if he resigns at this point, the MOD reform plan will become toothless due to bureaucratic resistance."

Some in the ruling camp have begun pointing to MOD's blunders after the accident, especially the change in the time the Aegis destroyer first spotted the fishing boat. An LDP lawmaker connected with national defense said: "The ministry changed its explanation to serve its own interests." A former Defense Agency director general warned: "MOD must not unveil information lightly that has yet to be verified."

A New Komeito executive, too, gave Ishiba the cold shoulder, saying: "Being in the ruling camp, it's not appropriate for us to urge Mr. Ishiba to resign. At the same time, we don't want to be regarded as defending him, either."

(3) Editorial: Aegis-equipped destroyer Atago's collision with fishing boat: SDF should not try to evade responsibility

ASAHI (Page 3) (Full)
February 22, 2008

The standard procedure any organization that makes a blunder undergoes to regain trust is to correctly determine what happened, immediately have a report submitted, and release it. The Self-Defense Forces (SDF) have not followed this most important procedure in dealing with the Aegis-equipped destroyer's collision with a fishing boat.

On the contrary, the SDF has changed its accounts later on, with inconvenient facts coming out later. Under these circumstances, it cannot be helped if people think that they are trying to shirk their responsibilities by hiding inconvenient information.

It has been learned that the crew on watch aboard the Maritime Self-Defense Force's Aegis-equipped destroyer Atago, which struck and scuttled the small fishing boat Seitoku Maru, had spotted a light of the fishing vessel 12 minutes before the collision.

This contradicts the explanation the SDF gave on the day of the accident that the Atago spotted the fishing boat two minutes before the collision and took evasive action one minute later.

When it spotted the fishing boat is extremely important in investigating the cause of the accident. It is hard to understand why such vital information was not revealed immediately.

The moves of the Aegis destroyer after spotting the fishing boat are even more unbelievable. If it had spotted the fishing boat 12 minutes before the collision, it means that the Seitoku Maru was several kilometers away. It should have been fully possible for the Aegis destroyer to avoid the collision. However, it neither changed course nor slowed down. The destroyer was left on autopilot until immediately before the collision. This flies in the face common

sense.

There were some more fishing boats ahead of the destroyer Atago. The Seitoku Maru was in convoy along with its fellow fishing boats. The Aegis-equipped destroyer plowed into the convoy.

What were crew members aboard the state-of-the-art SDF ship doing then? Did the crew on watch who spotted the fishing boat convey that to duty officers and radar monitors? Did they continue to monitor the moves of the fishing boat?

It appears that the time of the collision coincided with the time the crew on watch were relieved. They could have neglected the watch due to the takeover procedure.

The SDF has yet to reply to such basic questions. It has also yet to reveal the situation in the ship before and after the collision.

If it claims that it is not possible to report what happened in the vessel, it means there were no discipline at all. Can we entrust such an organization with Japan's security?

To begin with, if the MSDF is unable to avoid a fishing boat operating in front of it, how can it defend Japan? We are concerned that the morale and discipline of the SDF might have declined.

The SDF should reveal every detail of the accident without disguise. It is unforgivable for it to defend itself on the strength of the importance of national defense.

Defense Minister Ishiba's responsibility is weighty. If he cannot comprehend the actual state of SDF units, civilian control will be impossible. The accident this time has also put Japan's democracy to the test.

(4) LDP criticizes government's draft basic plan on ocean policy as showing no posture of trying to protect national interests

SANKEI (Page 5) (Excerpts)
February 22, 2008

The Liberal Democratic Party's Special Committee on Ocean Policy, chaired by Seiji Nakamura, held a meeting at party headquarters yesterday to discuss a draft basic plan on marine policy compiled by the government's marine policy task force, headed by Prime Minister Yasuo Fukuda. The government plans to adopt it in a cabinet meeting in mid-March, but criticism is mounting of the plan, with one committee member claiming: "The government's eagerness to protect marine resources and its interests cannot be detected in the plan."

The basic plan is to provide for the nation's basic marine policy and measures to ensure the safety of the lives of its people.

On the dispute between Japan and China over gas exploration rights in the East China Sea, however, the draft uses such a roundabout expression as "problems have been caused over resource development because the areas (whose development are being) asserted by the other side straddles the Japan-claimed exclusive economic zone." In the meeting, many participants criticized this part. One member claimed: "The key point of how to protect Japan's rights and interests in the East China Sea is not included. Such a vague expression as 'the other side' should not be used." Another

TOKYO 00000473 006 OF 013

assailed: "The government's office gave excessive consideration to China in drafting the plan."

(5) Marine admits to rape allegations

OKINAWA TIMES (Page 1) (Full)
February 22, 2008

In connection with a recent rape that took place in the middle part

of Okinawa's main island, Okinawa prefectural police have now arrested Tyrone Hadnott, a 38-year-old U.S. Marine Corps staff sergeant belonging to Camp Courtney in Okinawa, on suspicion of raping a junior high school girl. Hadnott has fully admitted to his allegations, investigative sources said yesterday. He had denied his allegations, maintaining that he fondled her but did not rape her. However, his statement differs in part from the girl's explanation. The prefectural police are carefully investigating the incident.

According to investigations, Hadnott allegedly raped the girl in a car parked on a road along a park in the middle part of Okinawa's main island at around 10:33 p.m., Feb. 10. She was freed before 11:00 p.m., and police put her under protective custody when she was lying low in the park. She asked her friends for help over her cellphone.

Prefectural police authorities searched Hadnott's house, where they confiscated a vehicle and a motorbike that are believed to have been used for the crime. The police are now searching for further evidence, including DNA analysis.

Meanwhile, another sexual assault took place on Feb. 18. In this case, an Okinawa-based U.S. Army corporal in his 20s is alleged to have raped a Philippine woman. The suspect, currently under U.S. military custody, has denied his alleged rape, maintaining that it was "consensual," the investigative sources said yesterday. The prefectural police are now questioning the corporal and the victim through her acquaintances. The police will seek an arrest warrant as soon as his allegations are confirmed.

(6) Debate on bills on FY2000 budget, revision special taxation law to reach crucial stage at end of February; Ruling coalition planning to pass them through Lower House on Feb. 29, opposition camp seeking cautious debate

NIKKEI (Page 2) (Full)
February 21, 2008

A tug-of-war is now intensifying between the ruling and opposition camps over the fiscal 2008 budget bill and a bill amending the Special Taxation Measures Law, which includes measures to retain the current provisional tax rates for road construction. Although the ruling parties aim to pass the bills through the House of Representatives on Feb. 29, the opposition camp is reacting strongly against the ruling coalition's plan, calling for cautious deliberations. The ruling camp wants to avoid provoking the opposition in order to get their approval of its appointments of a new governor and vice governor of the Bank of Japan. The ruling bloc is now being forced to steer a difficult course in overcoming the politically divided Diet.

In a meeting yesterday of the Lower House Financial Affairs Committee, Prime Minister Yasuo Fukuda stressed the need for

TOKYO 00000473 007 OF 013

enacting the bill revising the Special Taxation Measures Law before the end of this fiscal year. He stated: "In order also for promoting fiscal soundness, the provisional tax rates have to be retained."

The ruling coalition plans to hold ad hoc subcommittee meetings, which are preconditions for taking a vote on the budget bill at the Lower House Budget Committee, on Feb. 27 and 28. They are also determined to push the budget bill and the bill amending the tax law through the Lower House on Feb. 29.

LDP Upper House Caucus Chairman Hidehisa Otsuji told reporters yesterday in Fukuoka City: "The Upper House will become the main battle field. Revising the bills will become a topic of discussion after they are sent to the Upper House."

The ruling camp's source of retribution is the agreement between the ruling and opposition blocs on Jan. 30 through the good offices of Lower House speaker and Upper House president. The agreement stipulates that a certain conclusion should be reached by the end of the current fiscal year (March) on the budget and revenue-related bills. The ruling camp interprets the phrase that the bills should

be sent to the Upper House before the end of February to secure time for deliberations.

The main opposition Democratic Party of Japan (DPJ or Minshuto), however, opposes the ruling coalition's plan. DPJ President Ichiro Ozawa discussed the matter yesterday with Upper House Caucus Chairman Azuma Koshiishi, Diet Affairs Committee Chairman Kenji Yamaoka, and Policy Research Committee Chairman Masayuki Naoshima. They reached an agreement that their party itself would not call for a revision of the bill to amend the Special Taxation Measures Law, but that it would step up its pursuit of the government.

The DPJ will likely forgo its plan to submit its counterproposals. Secretary General Yukio Hatoyama told reporters yesterday in

SIPDIS

Shizuoka City confidently: "It is not necessary at all to present compromise proposals. As time goes by, the ruling parties will become frustrated with themselves."

The DPJ's basic strategy is to abolish the provisional tax rates at the end of March by thwarting the enactment of the revision bill before that time. The party is determined not to respond to a vote on the bill at the Lower House in early March, seeking cautious deliberations. Yesterday it had the Lower House Financial Affairs Committee discontinue its deliberations for the reason that the Finance Ministry did present sufficient documentation.

(7) Government eyes introduction of emissions trading system, in anticipation of creation of emissions-rights market by U.S.

ASAHI (Page 8) (Full)
February 21, 2008

The government has decided to fully study the possibility of introducing a domestic emissions trading system in order to significantly reduce the nation's greenhouse gas emissions. This issue will be high on the agenda in meetings of an experts' panel that will be set up under the prime minister by the end of this month. The European Union (EU) is aiming to create an international emissions-rights market. Based on the judgment that the next U.S. administration, not only the EU, will surely make a policy switch to introduce the system, the Japanese government has finally begun to

TOKYO 00000473 008 OF 013

take action. Although economic circles, mainly the electricity and steel industries, are still putting up strong resistance, there are signs that they are becoming flexible about the introduction of the system.

In a press conference yesterday, Chief Cabinet Secretary Machimura said: "It is likely that an administration that takes a different approach to the environment from the Bush administration will be established." He thus indicated that the next U.S. government will accelerate the implementation of measures to contain global warming, including an introduction of an emissions-trading system. The three major candidates for the upcoming U.S. presidential election, Republican front-runner John McCain, Democrat Hillary Clinton, and Democrat Barack Obama, have expressed their support for introducing an emissions-trading system. The two Democratic candidates have set forth the numerical target of reducing their country's gas emissions by 80 PERCENT from 1990 levels by 2050.

The EU, which has come up with the goal of reducing emissions 20 PERCENT from 1990 levels by 2020, announced in late January that it would review its current regional trading system. The EU proposed revising the way the cap is set and adopting an auction formula, applying pressure on the Japanese and U.S. governments, both of which are negative about setting up an emissions-rights market.

A senior government official said: "The government has become positive about emissions trading in response to moves by the U.S. and Europe. Japan might open an emissions-rights market four or five years from now."

The prime minister wants to give a boost to his administration by

stepping up efforts against global warming. Meanwhile, the Democratic Party of Japan (DPJ) is already working on a bill to introduce an emissions trading system. The prime minister is set to counter the DPJ by setting up by the end of this month an experts' panel tasked with crafting a strategy to establish a low-carbon society in accordance with the commitment he made in his policy speech in January.

Toyota Motor Corp. Advisor Hiroshi Okuda will head the new panel. He was appointed as special advisor on global warming in line with the prime minister's strong desire. The government aims to gradually solicit approval from economic circles by drawing Tokyo Electric Power President Tsunehisa Katsumata and Nippon Steel Corporation President Akio Mimura into the panel from the electricity and steel industries, which are said to be "the toughest forces of resistance," as said by a senior government official.

(8) Interview with Keio University Professor Heizo Takenaka: Local areas have become impoverished because structural reforms have been insufficient

EKONOMISUTO (Page 26) (Full)
February 26, 2008

-- The observation has been growing that Japan's economic foundation is sinking.

"The phenomenon is symbolically reflected in the falling stock prices. Even in the U.S., where the subprime loan crisis occurred, stock prices have gone up 6 PERCENT over the past year. Expectations of Japan have apparently withered. What happened in

TOKYO 00000473 009 OF 013

2005 is in sharp contrast with the current situation. Postal services were privatized, following the dissolution of the Lower House and the snap election. Stock prices shot up 40 PERCENT that year, boosting the expectation that Japan would change. Japan has both bright and dark aspects. By that, I mean Japan can be very strong when something has to be done.

-- State Minister for Economic and Fiscal Policy Hiroko Ota gave a speech in the Diet that the Japanese economy can no longer be called one of the best due to the decline in per-capita GDP in the world.

"It is unacceptable for the government to make such a statement without fully implementing the reform drive. The government's role is to show its resolution that even though some may say that the Japanese economy is no longer one of the best, it will bounce it back to the first-class level. Since the government has not said so, expectations of the Japanese economy are further declining."

Summing up of Upper House election in July last year by LDP is mistaken

-- Do you think that Japan is heading for a decline?

"I think that Japan is in a situation where it can go either way, get better or get worse. It is regrettable that some think that Japan has declined. However, given the fact that it was only three years ago that stock prices rose 40 PERCENT, it is possible to turn the present tide.

Japan has many strong points, such as technology. Measures to combat climate change are on the global agenda. Japan's energy efficiency is the highest in the world. It is twice that of the U.S. and nine times that of China or India in terms of CO2 emitted for every dollar generated in GDP. Japan has such a high technology.

In the meantime, the world is concerned that Japan could fall into a situation similar to the 'lost decade' it experienced in the 1990s when its reform momentum lost steam. I do not think that the Japanese economy will go back to those days. The economy was indeed helped thanks to the disposal of non-performing loans held by banks. The Japanese economy will not suffer such a major setback again. However, the government finds itself unable to fully display its leadership at a time when Japan has to gather steam to boost its

economy."

-- The Diet is divided between the Lower House and the Upper House as a result of the Upper House election last year, causing a political deadlock.

The biggest political mistake last year was the Liberal Democratic Party's conclusion reached after the Upper House election. Summing up the election result, the LDP believed that the ruling camp had lost the election due to disgruntlement harbored by rural areas hit by the structural reforms. However, that conclusion was fundamentally incorrect. To begin with, reforms were carried out in urban areas. Sufficient reform has yet to be carried out in rural areas. The ruling parties lost seats in rural areas where reform has yet to be carried out. However, they were not defeated in urban areas, where reform was already carried out. It is true that rural areas have become impoverished. That is because reforms have not been fully implemented there. Structural reforms in the agricultural sector have yet to be carried out. Decentralization has not taken

TOKYO 00000473 010 OF 013

place yet. The wrong choice - namely, to end structural reforms -- is gaining ground.

CEFP taken over by bureaucrats

-- The Council of Economic and Fiscal Policy (CEFP) played the role of the control tower during Prime Minister Junichiro Koizumi's reform drive.

In my view, the CEFP is heavily responsible for the situation that occurred after the Koizumi administration. Looking back on the past year and six months, the panel has only come up with slogans. It has no action programs on the agenda. They say that it is necessary to boost the economy and revitalize education. However, they are just issuing slogans. Nobody opposes such slogans. But when it comes to what should be done, it has no easy-to-understand agenda.

When foreigners ask, "What has Japan done since it carried out such reforms as the disposal of bad loans and postal privatization?" no one can answer. Although the role of the CEFP is to set strategic agenda, the council has not done so yet.

Regarding the management of the CEFP, private-sector members (four, including International Christian University Professor Naohiro Yashiro, Japan Business Federation Chairman Fujio Mitarai) are responsible for presenting papers at meetings. But bureaucrats dictate their tasks. Symbolically, a report noting that the consumption tax rate must be raised read as if it was written by the Finance Ministry, but it was presented in the name of the private-sector members. Surprisingly, the CEFP has been totally taken over by bureaucrats.

It is of no use pinning hopes on civil servants or Diet policy experts, because their behavior is motivated by the desire to secure vested rights and interests. That is why private citizens should be involved in the policy-making process. Various experts councils have private citizens on them but unfortunately, those representing the private sector have not produced many results. At present, there is no virtuous cycle of politics displaying leadership and private citizens bravely challenging the systems. Unless there is such a cycle, policies will not turn around.

-- Isn't it difficult to carry out reform under the present political climate?

"Even so, Japan has sophisticated technology and strong elements in various fields. There is a strong possibility of the status of the Japanese economy being elevated, if it reshapes the reform initiative and correctly sets the agenda. If the situation is left unattended, I am pessimistic about the future of the Japanese economy. However, there are other paths to follow.

Our society as a whole lacks a sense of crisis. Though Japan's per-capita GDP has slipped to fourth place, daily life is not so bad from a global standard. Although we may not be bad off now, our

children or grandchildren might be in a lot of trouble. We need to have such a sense of alarm.

(Interviewer: Naoki Ogawa of the editorial office)

(9) Interview with Eisuke Sakakibara: Carry out not reform but revolution to avoid ruin of Japan

TOKYO 00000473 011 OF 013

EKONOMISUTO (Page 27) (Full)
February 26, 2008, issue

-- In your recent book, Fall of Japan (Nihon no botsuraku), you reiterate that the future of Japan is at risk. Where have you seen such signs?

Companies have begun to turn inward looking; organizations have become bureaucratized; and dynamism is being lost. For instance, many countries now have growing interest in India and are eagerly making inroads into its market. Japan, however, seems to be following after them. Companies must expect some risk involved in investing in India, but Japanese firms seem unable to assume any risk.

Given that there are no strict regulations on compliance and governance, corporate executives have been pouring excessive energy into their own companies. As a result, their mind-set is considerably introspective. Another factor is that once a company causes an accident or has a scandal, television tends to severely criticize it.

Japanese companies are still capable of earning profits and have abundant capital, so they should be able to proactively move toward M&As (merger and acquisition) with foreign companies. But they are trying to protect themselves from being bought (by foreign companies).

-- There are many companies dominating the global market with their high environment-protection technology.

There are many superior companies, such as Toyota Motors., Nippon Steel, and Matsushita Electric. Although I wrote about a possible fall of the state, I did not mean such would occur this year or next year. Japan might go under 10 years or 20 years from now. General Motors of the U.S. (which was overtaken by Toyota in terms of output) was performing strongly a decade ago.

I wonder if Japanese firms will be able to maintain a significant lead in terms of technical prowess over China and India, which are emerging remarkably. It is necessary for Japan to cultivate excellent engineers, but the government and companies are not eager about it. Japanese industries are actually living on what they had accumulated in the past

-- Under the current political situation, in which the opposition camp controls the House of Councillors and the ruling bloc holds a majority in the House of Representatives, both camps seem overly preoccupied with political maneuvering.

What must be done now is to change the nature of this nation with a change of government. There might be no other means but to let the Democratic Party of Japan (DPJ) assume political power for the time being in order to carry out the change.

Over the past decade, the LDP, starting with the government of Ryutaro Hashimoto through the Junichiro Koizumi government, worked out many reform plans but then failed to implement them. Most of the plans proposed by the Koizumi administration ended up as mostly empty slogans. In the case of privatizing the Japan Highway Public Corporation, the company was changed for the worse. The so-called

TOKYO 00000473 012 OF 013

triple reform plan - reducing national subsidies, transferring tax

revenues to local governments, and reforming the grant-in-aid system - also resulted in widening regional income disparities. We don't know what will become of postal services now. The education system is getting worse, and problems related to the pension system are erupting. The medical system is collapsing.

It is necessary to change the current relationships between the central and local governments and to promote decentralization. The Health, Labor and Welfare Ministry and the Education, Culture, Sports and Science and Technology Ministry are basically unnecessary for the central government. The government should devote itself to diplomatic, defense and financial affairs. Authority for handling projects should be handed over to local governments. I have also suggested establishing about 300 corporate towns, with a population of 300,000 in each, through mergers. This system should be different from the regional system but like the one in which there were 300,000 clans in the Edo period. The central government should stop controlling local governments in various forms and fully perform its own duties. The current public servant system, too, should be changed.

The government should also ease restrictions on the educational system. The regulations imposed by the Education Ministry are overly strict. It is necessary to prepare the minimum standards for compulsory education, but more flexibility is necessary for university education. What is needed now is to cultivate elites. Japan has not produced a class of elites, in the good meaning of the word. The government should establish boarding junior high schools, high schools, and colleges that would accommodate even poor students if they make efforts. By taking such measures, Japan should nurture those who could display leadership.

-- Is the DPJ capable enough to assume the reins of government?

I don't know. But a change of government would slash away at vested interests and the new administration could be expected to change (conventional systems) significantly. Since the government's various systems have become complementary, it is difficult to partially change them. The network of vested interests has put up resistance and has watered down things in the end, as seen in the reform of the Japan Highway Public Corporation.

-- In the Meiji Restoration, the arrival of the black ships enhanced a sense of crisis among low-level samurai. Is there a sense of crisis among Japanese people at the present time?

The black ships are actually coming in. Signs of Japan about to collapse are appearing all over the place, so we must have a sense of alarm. A bloodless revolution should be carried out by changing government. What is needed is not partial reform but revolution or renovation.

Unless revolution or renovation is carried out, society could fall into a state of turmoil in various ways. Crime might increase, safety would be threatened, social disparities could widen, and those suffering by hunger and poverty would increase. Such a state could bring about political disarray. Japanese companies would be defeated in global competition, and the Japanese economy would weaken. Wages would drop, and job opportunities would be reduced. If the state falls into ruin, such phenomena will appear.

TOKYO 00000473 013 OF 013

During the high economic growth period, everything seemed to improve speedily, but the situation could turn around. It will be very hard to achieve results even if reform is carried out, once the state is in ruins. Japan must be significantly changed on a trial basis over the next five years or so. If we are resolved to bring about a major change, we will not need to be pessimistic. Since Japan has yet to go under, there is still enough room for rebuilding the nation.

SCHIEFFER